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GST GOODS AND SERVICES TAX

THE FOOD SERVICES INDUSTRY

Canada

91-01901/

Bill C-62, the proposed legislation on the Goods and Services Tax, received third reading and was passed by the House of Commons on April 10, 1990. The Bill has not received Royal Assent at the time of printing of this publication; however, Revenue Canada would like to help businesses and organizations prepare for the tax. Accordingly, the information contained in this publication, although subject to change, is being provided at this time for your convenience.

Printed under the authority of the Honourable Otto Jelinek, Minister of National Revenue.

Le présent guide sur la TPS est également disponible en français sous le titre «RENSEIGNEMENTS À L'INTENTION DE L'INDUSTRIE DES SERVICES D'ALIMENTATION».

A Message to the Food Service Industry

As minister responsible for the administration of the proposed Goods and Services Tax (GST), I am pleased to provide you with this sector guide.

The information contained in this publication is the result of extensive consultation with the food service industry and is but one example of how we are making the introduction of the proposed GST as easy as possible.

If, after reading the guide, you still need clarification of certain points, do not hesitate to call on one of my officials at any time. You can do so by dialing our local or toll-free enquiry lines, by letter, in person, or if you have a personal computer with a modem, by accessing our GST database 24 hours a day. Along with the access information, the addresses and telephone numbers of Revenue Canada Excise offices are listed on the back cover of this guide. If you let us know what your information needs are, we can serve you better.

Timing is everything in business. We can help you prepare for a smooth transition to the GST.

Otto Jelinek
Minister

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GST *and the Food Service Industry*

On January 1, 1991, the proposed Goods and Services Tax (GST) is scheduled to replace the Federal Sales Tax (FST).

The GST is an important part of the Government's plan for tax reform. It represents a change in the way the Government raises revenue. While the FST is a tax on manufactured products, the GST will be a multi-level tax on consumption.

This guide will help owners and operators of all types of food services prepare for the GST, and will answer many of the questions they may have. It explains how to register for the GST, and how to collect, record, calculate and send in the tax. Information is also provided on a number of programs designed to make the change from the FST to the GST as easy as possible.

The first few sections of this guide will provide you with a general understanding of the GST. We suggest that you read these pages first, before using the table of contents to find more specific information on your establishment. You can keep this publication handy as a general reference guide on the GST.

If you require additional information, please contact the Revenue Canada Excise office nearest you. The telephone numbers and addresses are listed on the back cover of this guide.

Your Responsibilities Under the GST

After you register, you will be responsible for:

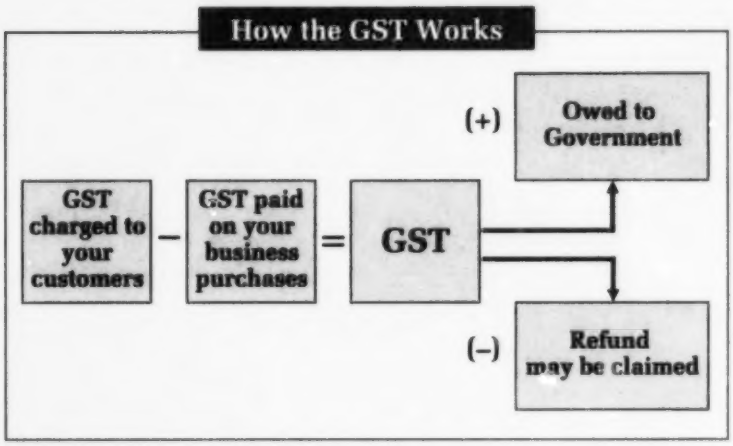
- collecting the GST on your sales of **taxable** goods and services;
- calculating the GST you have paid and collected;
- adjusting, if necessary, your books and records to calculate the GST you have paid and collected on your sales, and the GST you must send to Revenue Canada, Customs and Excise, or your refund; and
- filing your GST return.

How the GST Works

The proposed GST will be a tax on consumption and will be applied to most transactions throughout the production and marketing process. Those in the food service industry with annual sales of taxable goods and services of more than $30,000, will have to register for, collect and send in the GST.

Businesses that provide taxable goods and services valued at less than $30,000 a year are considered to be **small suppliers** and will not have to register for the GST. An unregistered small supplier will not charge the GST on taxable sales nor be able to recover the GST paid on purchases.

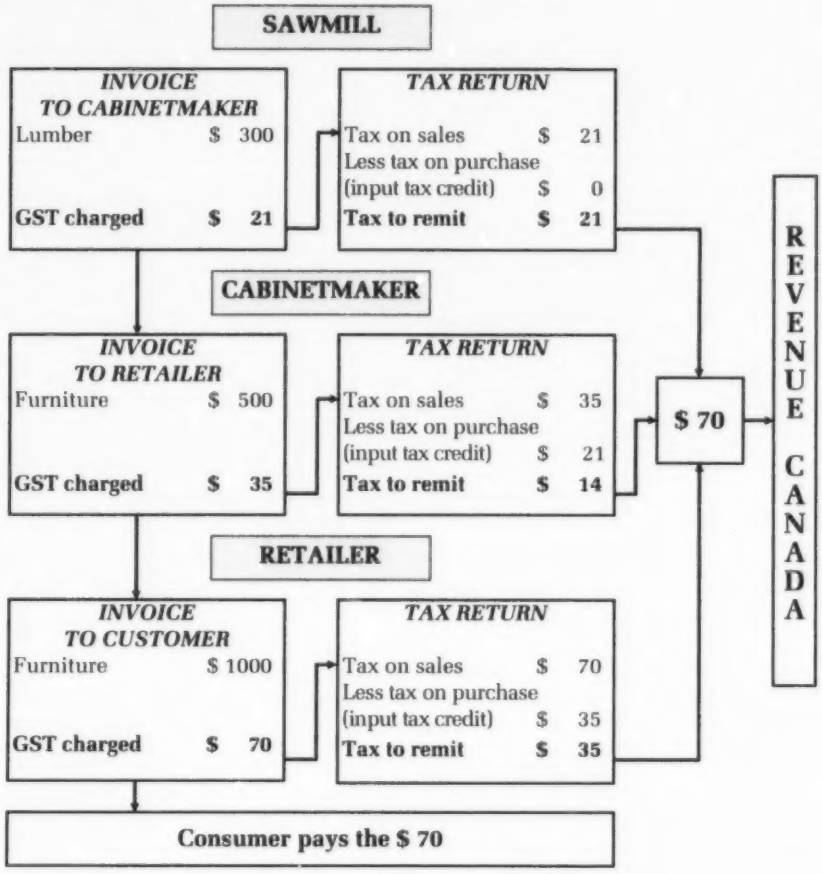
Generally, GST registrants who provide taxable goods or services will have to pay the GST on their purchases and collect the GST on their sales and services. If the GST collected is greater than the GST paid, the difference has to be sent to Revenue Canada, Customs and Excise. If it is less, a refund may be claimed.



As a GST registrant, you will be able to claim a credit, called an "Input Tax Credit" (ITC), for the GST you have paid on business purchases (those related to the taxable goods and services you provide). You can claim the input tax credit for the goods you purchase for resale (including imports), rentals, some capital property, and any goods or services you need to operate your business.

When you complete your GST return, you will deduct your input tax credit from the GST you collected on sales. In this way, claiming input tax credits removes the GST from goods or services until they are purchased by the final consumer.

Because the GST is not charged on basic groceries, (which make up the bulk of your business purchases) lumber, which is taxed at seven per cent, is used in the following chart to show how the GST will generally apply to a product as it moves through the production process.



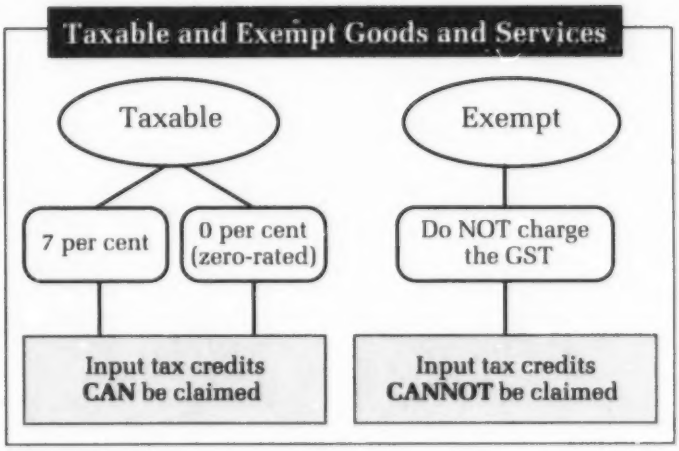
GST in Operation

Under the proposed GST, goods and services will be taxed either at seven per cent or zero per cent (called "zero-rated"), or they will be exempt.

Most goods and services sold or provided in Canada will be taxed at seven per cent. This means that in most instances, the GST will be charged at seven per cent of the final selling price of these goods and services. As well, you will be able to claim an input tax credit for any GST you pay on business purchases **used to provide these goods and services.**

Some items, such as basic groceries and prescription drugs, will be zero-rated. You will not pay the GST when you buy zero-rated goods and services, nor will you charge the GST when you sell or provide zero-rated goods and services. However, you will be able to claim an input tax credit for any GST you pay on goods or services you **acquire or use to provide zero-rated goods and services.**

Certain goods and services, such as health care services and long-term residential rents (for example, apartment rentals), will be GST-exempt. This means that no GST will be collected on these services. Unlike the taxable goods and services mentioned above, however, you will not be able to claim an input tax credit for any GST you pay on goods and services you **acquire or use to provide exempt goods and services.**


Taxable and Exempt Goods and Services
Taxable
Exempt
7 per cent
0 per cent (zero-rated)
Do NOT charge the GST
Input tax credits CAN be claimed
Input tax credits CANNOT be claimed

After you have registered, you will be given a reporting schedule to follow for filing your GST returns. Reporting periods will be based on your total annual sales of taxable (seven per cent and zero-rated) goods and services.

Normally, quarterly reporting periods will be assigned. However, you may be able to choose another reporting period if it suits your business better. These options are discussed later in this guide.

The following examples show whether the GST will apply to various goods and services. Some of these items may not be applicable to your business; nevertheless, the examples will help you gain a better understanding of which goods and services are subject to the GST and at what rate.

Some examples of goods taxed at seven per cent:

- prepared food and beverages, such as restaurant and take-out meals
- arrangements of prepared food, such as cheese trays
- candies, chocolate bars and gum
- beer, wine and spirits
- giftware
- tobacco products and souvenirs

See the *Appendix* at the back of this guide for a more detailed listing of food and beverages taxed at seven per cent.

Some examples of services taxed at seven per cent:

- catering services
- dish and cutlery rentals
- admission or cover charges
- dining, recreational and sports club memberships
- banquet facilities and parking space rentals
- delivery services

Some examples of zero-rated goods and services:

- basic groceries, such as fruit, vegetables, meat and eggs
- prescription drugs and drug-dispensing fees
- exports

Some examples of GST-exempt goods and services:

- long-term residential rents
- previously occupied residential housing
- health care services
- educational services
- most services provided by financial institutions, such as arrangements for a loan or mortgage

Providers of Food Services

The following chart outlines how sales from various food service outlets will be affected by the GST. More information on each outlet is provided after the chart.

Providers of Food Services

Eating Establishments	**Other Commercial Food Service Outlets**
almost all items sold will be taxed at 7 per cent	**most** items sold will be taxed at 7 per cent / **some** items sold will be zero-rated
Educational, Health-Care and Public Sector Institutions	**Vending Machines**
most items sold will be exempt	**all** items sold will be taxed at 7 per cent

Eating establishments: Almost all food and beverages sold in eating establishments will be taxed at the rate of seven per cent.

Examples of "eating establishments" include:

- restaurants
- fast-food outlets and deliveries
- chip wagons and hot dog stands
- taverns, bars and lounges
- mobile canteens

Your business will be considered as an "eating establishment" if 90 per cent or more of the food and beverages it sells is taxed at seven per cent. Under the GST, the remaining food and beverages sold will also usually be subject to seven per cent GST. Therefore, if your business is an "eating establishment" you will have to collect seven per cent GST on the food products you sell. The only exception is when you sell food which is not suitable for immediate consumption. For example, you may sell a bag of house coffee beans which cannot be immediately consumed.

Caterers: Caterers and similar businesses that provide or prepare food or beverages at on-site locations will be considered as "eating establishments" for GST purposes. This means that all food and beverages, except food **not suitable for immediate consumption**, will be subject to GST. Food and beverages, such as prepared platters and hot meals as well as other items listed in the *Appendix*, will be taxed when provided by caterers.

Generally, if you include a service charge in your prices, you will have to collect the GST at seven per cent on the entire amount charged to your customers.

If you have contracts to provide food services to institutions, please see the section on **"Educational, health-care and public sector institutions"** in this guide.

Other commercial food service outlets: Most food and beverages sold in these outlets will be taxed at seven per cent. Businesses in this category provide food services, even though in some cases, such services may not be their major source of revenue.

Examples of other commercial food service outlets include:

- lunch counters and snack bars in department stores;
- dining rooms, coffee shops and room service operated by hotels, motels and lodging houses;
- dining facilities operated by recreational and athletic clubs;
- food concessions operated by arenas and theatres; and
- public transportation vehicles such as airplanes, in which charges for alcoholic beverages and/or meals are in addition to the price of the transportation.

Some businesses sell prepared food and beverages in addition to products that are zero-rated "basic groceries". These businesses will also be considered as "other commercial food service outlets". Examples include:

- grocery and convenience stores
- bakeries
- delicatessens
- doughnut shops
- ice cream shops

If you belong in the above category, you will have to charge the GST at seven per cent on the prepared food and beverages you sell, but not always on certain take-out products. These products are discussed later in this guide.

Educational, health-care and public sector institutions: The following is a list of meals and services provided at educational, health-care and public-sector institutions which will be exempt from the GST:

- meals prepared for primary or secondary school **students** and served at their school or at extracurricular activities organized by their school;
- meals served to **students** at a university or at a community college, under a plan for 10 or more meals a week, for one month or longer;
- catering services for **students** using an elementary or secondary school cafeteria;
- catering services to a school authority, university or public college, in which the food and beverages are provided **to students**;
- meals served by a public-sector body at a recreational camp for the underprivileged, or for the mentally or physically disabled;
- meals provided by a public-sector body to relieve poverty, suffering or distress;
- meals provided by a public-sector body under programs for needy individuals who, because of age, infirmity or disability, have difficulty preparing adequate meals for themselves; and
- meals served to patients and residents of health-care facilities.

However, the following products **will be taxed at seven per cent when sold at educational, health-care and public sector institutions:**

- all products sold from vending machines;
- meals for receptions or other special events at educational institutions;
- candies, confections and snack foods pre-packaged for sale to consumers (e.g., gum, potato chips, granola bars, pudding cups);
- carbonated or alcoholic beverages; and
- fruit flavoured beverages or fruit juice beverages containing less than 25 per cent of natural fruit juice.

Vending machines: All food and beverages sold through a vending machine will be taxed at a rate of seven per cent. This includes products such as plain milk and fruit which may be taxed at zero per cent when sold from other locations.

The price of food or beverages sold from a vending machine will be considered to include the GST, and the tax will be considered paid at the time of sale. You will have officially collected the tax on the day you remove the money from the vending machine.

You will have to remit the tax (less any input tax credits) on the money you collect from your vending machine. The tax to send in will be 7/107ths of the total amount you collect from the machine.

> If you collect $100 from your machine, multiply that amount by 7/107ths to determine the GST to send in: ($100 x 7/107 = $6.54 GST to remit).

Some take-out foods are zero-rated: Food and beverages sold as take-out products by eating establishments and other commercial food service outlets (other than through a vending machine) are sometimes zero-rated rather than taxed at a rate of seven per cent. This provision can apply to:

- sweetened bakery products
- products not suitable for immediate consumption

Sweetened bakery products: These include cakes, muffins, pies, pastries, tarts, cookies, doughnuts, brownies, croissants with a sweetened filling or coating and similar bakery products. Also taxable at seven per cent are sweetened buns or rolls, such as cinnamon buns or rolls. When these products are sold **for consumption on the premises**, they will be taxed at seven per cent – even if six or more are sold at a time.

When these products are **pre-packaged** in five or fewer single servings to **take out**, they will be taxed at seven per cent regardless of how many packages are sold at a time. Similarly, five or fewer single servings (not pre-packaged) bought to **take out**, will be taxed at seven per cent.

Exception: When six or more single servings are sold at one time to **take out**, they will be zero-rated. A mix of six or more single servings, such as two doughnuts, two muffins and two cookies, will also be zero-rated.

For sweetened bakery products a single serving is a whole or complete product weighing less than 230 grams, or a portion or part of that product (when it is sold as a single serving). Please refer to the *Appendix* for the definition of single serving for sweetened bakery products.

Products not suitable for immediate consumption: Food products sold in a form or quantity not suitable for immediate consumption will be zero-rated. For example, a bag of coffee beans will be zero-rated because it is not in a **form** ready for immediate consumption. A one-litre container of ice cream sold in an ice cream parlour or convenience store to take out, will be zero-rated because it is in a **quantity** not suitable for immediate consumption.

Registering for the GST

Most food services will have to register for the GST, based on the following general rules.

You will have to register for the GST if your total annual sales from taxable goods and services (including zero-rated sales) are more than $30,000 a year.

The "person" who owns the business must register.

A "person" under the GST, can be an individual, a corporation, a partnership or other kind of organization.

Once you have registered for the GST, you will be given a reporting schedule for filing your GST return with Revenue Canada, Customs and Excise. (Reporting periods are discussed later in this guide.)

If you have not already received the GST booklet "**SHOULD I REGISTER?**", together with a registration form, you may obtain one by calling your nearest Revenue Canada Excise office (see the back cover), or by picking up a copy at any post office.

Partnerships: If you are a member of a partnership, it is the partnership that must register for the GST and not the individual partners in a business.

More than one business: If you operate more than one business, it is still the person who owns the business who must register.

> If you own a restaurant as sole proprietor and you operate a gas station, also as sole proprietor, then **you** will register once for both businesses. However, if your gas station is incorporated and you operate the restaurant as sole proprietor, then the **corporation** should register for the gas station and **you** should register for the restaurant business. Regardless of how many businesses you own as sole proprietor, you need only register once.

Voluntary registration: Even if you are not required to register because your taxable sales are less than $30,000, you may register voluntarily to receive certain GST advantages. For instance, you have to be registered to claim input tax credits and the federal sales tax rebate, discussed later in this guide.

Paying the GST

This section explains how the GST will apply to goods and services, that you need to carry on your business.

Contracts that continue beyond December 31, 1990: You will not have to pay the GST on the lease of business equipment, such as kitchen appliances, if the current contract was made before August 8, 1989, and not renewed, altered or varied afterwards. However, for leases made, renewed, altered or varied on or after August 8, 1989, you will have to pay the GST on all lease payments that relate to a period after 1990.

Payments made under automobile leases entered into before 1991, will not be subject to the GST if:

- the lease agreement is in writing;
- the automobile is delivered before 1991;
- payments are made before 1994; and
- payments relate to a period before 1994.

Services provided on a continuous basis, such as electricity, will be subject to the GST. Under equal-billing plans, the seller will review your account before January 1, 1992, to ensure that the GST has been collected only on goods and services supplied after 1990.

Lease of commercial space: If you lease a space for your eating establishment you will pay seven per cent GST on the lease payments. You may claim an input tax credit for

the GST on these payments. If you lease space in a mall where there are common area charges (such as cleaning) you will pay GST on those charges.

Any other charges made by a property owner to a tenant, which relate to the rental or lease of space for commercial activity, will be subject to the GST. Examples include charges for water, electricity and maintenance.

Prepaid goods and services: You will pay the GST on the purchase of all taxable goods and services that are delivered (and to which the title is transferred) after December 31, 1990.

> If you paid for goods after August 1989 and before September 1, 1990, but they were delivered to you (and the title was transferred) after December 31, 1990, you will have to calculate the GST owing and send it in, together with a special GST return, by April 1, 1991.

Your supplier will collect and send in the GST owing on goods and services you purchase between September 1, 1990 and December 31, 1990, but which are delivered to you (and to which the title was transferred) after December 31, 1990.

Goods delivered before January 1, 1991 with payment after December 1990: You will not have to pay any GST on goods that are delivered to you (or title is transferred) before 1991, as long as you pay, or are invoiced for these goods before May 1, 1991. If you pay or are invoiced on or after May 1, 1991, the seller will collect from you the GST payable.

Franchise fees: Normally, franchise fees will be taxed under the GST. Franchise fees can cover management, accounting or administration services. They can also apply to goods, such as promotional items and stationery. If you are paying franchise fees, you will be able to claim the GST you have paid on them as an input tax credit, unless you sell only exempt goods.

If, on the other hand, you have franchise operations and are providing services to your franchise clients, you will have to charge the GST on your fees for these services. However, you will not have to charge the GST on exempt supplies, such as financial services, that you may provide to your franchise clients (if these services are billed separately and not included as part of the franchise fee). Financial services include the advancing of credit and the underwriting of financial instruments, such as loans.

If you are a GST-registered franchisee and you pay royalties to an unregistered foreign franchiser, you will not pay GST on the royalty payment.

Municipal taxes: Property taxes, such as municipal and school board taxes, are not subject to the GST. Since these taxes will not include the GST, you cannot claim input tax credits for them.

Collecting the GST

As a GST registrant, you will be responsible for collecting and sending in the GST on your sales of goods and services taxable at seven per cent. This section explains how the proposed GST will affect you on a day-to-day basis.

Informing your customers: When selling taxable products, most GST registrants will show the tax separately on their invoices or sales slips. However, you can include the GST in the price of the goods and services you sell, rather than having to calculate it separately.

If you do include the GST in your prices, you must inform your customers on your invoices or sales slips that your prices include the GST.

You can also state in your menus that your prices include the GST. However, your decision to include GST in your menu prices may be affected by how your province plans to adapt its Provincial Sales Tax (PST, where applicable) to the GST (for example, whether the PST will be applied to a price that includes the GST).

Sales invoices: If your customers are registered for the GST, they will need certain information on their invoices in order to claim an input tax credit on their taxable purchases from you. When customers ask you for a receipt for GST purposes, you will have to provide them with the appropriate information, according to the amount of the sale, as indicated in the following chart.

Sales Invoices

Information Required	Total Sale under $30	Total Sale of $30 to $150	Total Sale over $150
Your business or trading name	✔	✔	✔
The date when the GST was paid or became payable	✔	✔	✔
The total amount paid or payable	✔	✔	✔
An indication of which items are subject to the GST and either the total amount of the GST charged or a statement indicating that prices include the GST		✔	✔
Your GST registration number		✔	✔
The purchaser's name or trading name			✔
A brief description of the goods or services			✔

GST signs: As an added service, Revenue Canada will make available GST signs which indicate that product prices include the GST or that the GST will be added to product prices. You will also have the option of making your own signs, if you wish to do so.

Order forms may be obtained from your local Revenue Canada Excise office, listed on the back cover of this guide.

Gift certificates: The sale of a gift certificate will not be subject to the GST. When applied against a purchase, you will treat the certificate as money and calculate the GST on the full purchase price of the goods or services before deducting the value of the gift certificate.

Coupons: To simplify the calculation of the GST at the point of sale, the following procedures relating to the treatment of coupons, are available to persons in the food services and other industries.

Reimbursable for a specific single monetary discount: At the point of sale these coupons will be treated in the same way as cash offered by the customer. These are coupons that:

- are issued by a person other than the person redeeming the coupon;
- entitle the purchaser of goods or services to a specific monetary discount (e.g., $10.70 off your next meal);
- are only in respect of goods and services taxed at seven per cent; and
- are issued on a GST- included basis and this is indicated on the coupon.

When you price your products tax-extra, and you accept a reimbursable (tax-included) coupon, you will total the sale, add the GST payable and then deduct the value of the coupon from the total amount charged. When you include the GST in your prices and you accept this type of coupon, you will total the sale and then deduct the value of the coupon.

The following example shows how you would deduct the value of a GST-included coupon worth $10.70.

	Tax-extra Pricing	Tax-included Pricing
Price of the meal	$25.00	$26.75
GST on the meal: ($25.00 x 7%)	$ 1.75	–
Sub-total	$26.75	$26.75
Less coupon (GST-included)	$10.70	$10.70
Customer pays	**$16.05**	**$16.05**

When you prepare your GST return, you will calculate the tax collected **without taking** the value of the coupon into account (e.g., $1.75 in the above example).

When you send the coupon for redemption, you will be reimbursed for the full face value of the coupon which will include the GST component, as well as any applicable handling fees, and postage, etc.

Non-reimbursable for a specific single monetary discount:

- GST-included coupons: These are coupons you issue for use in your establishment and for which you are not reimbursed by another person. For those coupons which can only be used to purchase goods and services that are taxable at seven per cent, you will have the option of including GST in the face value of the coupons. If you choose this option, you must ensure that **all** coupons you issue for goods and services taxable at seven per cent, include the GST.

If you were to issue a coupon worth $10 you would add $0.70 GST ($10 x 7%) so that the face value of the coupon would be $10.70. The coupon must also feature a statement indicating that GST has been included in the face value.

When you accept your GST-included coupons at the point of sale, you will treat them in the same way as those coupons that are reimbursable coupons for a specific single monetary discount, (e.g., as cash offered by the customer). You can refer to the example on the previous page, to see how coupons which are issued GST-included are handled at the cash register.

When you prepare your GST return, you will calculate the tax to be remitted without taking the value of these coupons into account.

Also, you will be able to claim 7/107ths of the face value of these coupons as a tax credit adjustment. You would do this when you prepare your return for the reporting period in which the coupon is redeemed.

- Coupons which do not include the GST: If you choose not to issue your coupons on a GST-included basis, the following procedures will apply at the point of sale.

These coupons will reduce the selling price of an item **before** the GST is calculated. Therefore, you will deduct the value of the coupon from the selling price prior to calculating any GST payable.

Total price of meal	$25.00
Coupon	$10.00
Sub-total	$15.00
GST	$ 1.05
Customer pays	**$16.05**

When you prepare your GST return, you will calculate the tax collected on your sales ($1.05 in this example). There are no tax adjustments to be made if you use coupons which do not include the GST.

Other types of coupons: Coupons that are not for a specific single monetary discount will be treated in the same way as coupons that do not include the GST. These coupons will reduce the selling price of an item **before** the GST is calculated (as illustrated in the example above). Therefore, you will deduct the value of the coupon from the selling price of a meal prior to calculating any GST payable.

These coupons may:

- offer a certain percentage off the price of an item (e.g., a coupon to receive 10% off the price of a meal);
- offer a meal for no charge if another meal is purchased (e.g., two-for-one coupons);
- refer more than one monetary discount (e.g., 50 cents off a 250 ml bottle of pop, or $1.00 off a 500 ml bottle of pop); or
- be used for goods and services that are taxable, as well as zero-rated or exempt.

Deliveries: If you charge your customers a fee to deliver food purchased from your eating establishment, you will have to collect the seven per cent GST on the delivery fee. However, you will be able to claim an input tax credit for any GST you pay on goods or services that relate to providing the delivery service.

If you use your own vehicle to make deliveries, you will be able to claim an input tax credit for the cost of purchasing and maintaining the vehicle. If you use an outside service, you can claim an input tax credit for the GST you pay on the cost of this service.

Tips: Gratuities freely given to your employees will not be subject to the GST. However, if your establishment adds a gratuity to the customer's bill as a **service charge** (whether mandatory or a suggested amount), you will have to charge the GST at seven per cent.

If a bill is for $20 plus a 15 per cent tip (service charge) at $3, the GST will be charged on $23 (7% of $23 = $1.61). The total amount of the bill would come to $24.61 (plus any provincial taxes).

Calculating the GST Owing or Your GST Refund

To file your GST return for each reporting period (explained in the next section), you must first calculate:

- the GST you collected (or charged) during the reporting period; and
- the GST you paid (or were charged) on purchases used to provide taxable goods and services during the same period.

The difference between these two amounts will either be the GST you have to send to Revenue Canada, Customs and Excise, or the amount of your refund.

The Input Tax Credit (ITC): Owners and operators of all types of food services that are registered for the GST will be able to claim input tax credits. This credit will be applied against the tax you collect (or charge) on your sales and will enable you to recover the GST you pay on your business purchases and expenses related to the taxable products or services you provide.

> **If you pay for taxable services, such as printing, to produce your restaurant's menu, the company will charge you the GST on its services. This seven per cent GST can be claimed as an input tax credit for your establishment.**

You can also claim an input tax credit for the GST you pay on other expenses related to your taxable activities, including:

- dishes, cutlery, etc.
- utilities
- office rental
- the purchase of office supplies

In addition, you can claim an input tax credit for the full amount of the GST you pay on **capital property** you use primarily (more than 50 per cent) for taxable business activities, and for which you can claim a capital cost allowance under the *Income Tax Act*. Examples of these purchases include:

- computers
- facsimile systems

Note: Input tax credit claims are limited strictly to business purchases and expenses used in taxable (either seven per cent or zero-rated) activities.

If you own the building in which your restaurant is located, and you rent out the upper floor to a residential tenant (an exempt activity), with utilities included in the rental price, you must determine how much of your utility bill relates to your restaurant. You can only claim an input tax credit for the GST you have paid on the portion of the bill which relates to the restaurant. The method you use to determine the amount of electricity your restaurant uses must be reasonable for your specific circumstances and used consistently from one tax filing period to the next.

If you **lease** the space your restaurant occupies, you may claim an input tax credit for the GST charged on the lease.

Claiming your input tax credit: You will claim your input tax credit when you file your GST return. You can claim each input tax credit only once. If you forget to claim an input tax credit, you have up to four years to claim it. The four-year limit will begin on the day your GST return was due for the period in which the purchase was made.

You cannot claim input tax credits for the GST you paid on purchases relating to any **exempt** goods or services that you sell or lease.

The Quick Method: Under the proposed GST, you will have to keep records of the GST you collect on your sales and pay on your purchases, so that at the end of your filing period you will be able to calculate your GST remittance or your refund.

As an alternative to these calculations, the Government has developed the **Quick Method** of accounting to help reduce your paperwork and bookkeeping costs. You can use this method if your annual revenue from taxable goods and services is $200,000 or less.

If you choose the **Quick Method,** you will calculate the GST to remit as a percentage of your total revenues (GST-included) from taxable goods and services. The percentage for food services has been set at **five per cent.**

This percentage is not a different GST rate. Rather, it is a simple way to calculate the net GST you have to pay during your reporting period. You will still have to collect the GST at seven per cent on the taxable services you provide to your clients.

With the **Quick Method,** you will not be able to claim any input tax credits, except for purchases of capital property such as kitchen equipment, for which you can claim a capital cost allowance under the *Income Tax Act.* This is because the **Quick Method** percentage is set to account for most input tax credits. Therefore, **if you lease capital goods**, such as kitchen equipment or a vehicle, you will not qualify for input tax credits under the **Quick Method.**

When you use the **Quick Method**, you will:

- total your **taxable** sales and services (GST-included) for your filing period;
- multiply that total by your **Quick Method** percentage;
- deduct any eligible input tax credits (i.e., on capital purchases only); and
- send in the balance when you file your GST return.

If your business purchases of seven per cent taxable goods comprise 40 per cent or more of your total annual sales, you will qualify for a **Quick Method percentage of** three per cent. Also, the seven per cent taxable purchases must be resold in substantially the same form as purchased. For example, some owners of vending machines will use three per cent. However, as most food service industry purchases are zero-rated basic groceries, you will likely not qualify to use the **Quick Method** percentage of three per cent.

If you choose to use the **Quick Method**, you must file an election form, available from any Revenue Canada Excise office.

Books and Records

Under the proposed GST, you should be able to use your current bookkeeping system, with some minor modifications.

- If you have chosen to use the **Quick Method** of accounting, you will not have to change your accounting records.

- If you maintain a manual bookkeeping system, you could add columns to your books to record the GST you have paid (or were charged) and collected (or charged). At the end of your reporting period, you would total these columns to calculate the amount of GST you have collected (or charged) and the amount you have paid (or were charged) on purchases for the period covered by your GST return. The GST should be easily identified from your purchase invoices.

- If you have a completely automated system, you may have to make some adjustments to your computer programming.

Purchase invoices: Even if you use the **Quick Method**, you must keep all of your invoices for six years and make them available to Revenue Canada Excise auditors, on request. Businesses registered for the GST will provide you with invoices for your purchases showing their GST registration number and other required information (see page 17). If this invoice is not provided, be sure to ask for one.

Filing Your GST Return

Everyone who is registered to collect the GST will have to file a GST return for each reporting period, even if there is no money to be remitted or refunded.

When you register for the GST, you will be advised of your filing frequency, which will be determined by your annual sales volume of taxable goods and services, as indicated on your GST registration form.

Filing frequency can be monthly, quarterly or on an annual basis. If you file monthly or quarterly, you will send in the net tax owing or claim a refund when you file your GST return. If you file annually, you will have to make quarterly instalments. The GST return you complete at the end of the year will reconcile your instalment payments with the amount of tax you actually owe. However, if your total instalment payments base for the annual reporting period is below $1,000, you will only have to file your return and send in the GST owing once a year.

If your filing schedule is monthly or quarterly, you will have to file your GST return within one month of the end of your reporting period. If you file annually, you will be expected to file your GST return within three months of the end of your reporting period.

If you are given a quarterly filing period, **you will have to inform Revenue Canada, Customs and Excise,** if you choose to file either monthly or annually.

If you expect to be regularly receiving GST refunds, it may be to your advantage to file more often. Remember that once you have chosen a reporting period, you will have to use it for at least one year.

Filing Frequencies and Options

Value of Annual Sales and Revenues	Assigned Frequency	Option
Greater than $6 million	Monthly	None
Greater than $500,000 up to $6 million	Quarterly	Monthly
$500,000 and under	Quarterly	Monthly, Annually with Quarterly Instalments

Remitting the tax: Generally, there are three ways to file your GST return and send in the tax:

- by taking it to your bank or a participating financial institution;
- by mailing it to the GST Processing Centre or to your Revenue Canada Excise office; or
- by delivering it to your Revenue Canada Excise office.

In all cases, payment must be accompanied by your GST return and received by the return's due date. Please make your cheque payable to the Receiver General, and print your GST registration number on it.

If you are claiming a refund, mail your return to the GST Processing Centre, or take it to any Revenue Canada Excise office.

Note: You cannot claim a refund at your bank.

Remember! You will not have to send in all of the GST you have collected. Send only the net amount of tax (the difference between the amount of tax you collected (or

charged) and the amount of tax you paid (or were charged) on your business expenses over the course of your reporting period).

A sample of the GST return form can be found in the **"GUIDE FOR SMALL BUSINESS"**. You will receive this publication with the information package mailed to you after you pre-register for the GST.

Transitional Provisions

Special transitional arrangements have been put in place to help you administer the proposed GST. These are explained in this section.

Cash registers: If your cash registers are not able to identify the GST as well as the provincial sales tax separately on your receipts, you can include the GST in the price of the goods you sell and not calculate and charge it separately at the point of sale.

If you include the GST in your prices, you will have to display signs or indicate on your menus or invoices that prices include the GST.

However, if you choose to upgrade or purchase new point-of-sale equipment, the following assistance is provided:

- electronic cash registers and related inventory control equipment are now exempt from the federal sales tax;
- if you purchase or upgrade this equipment between August 9, 1989 and December 31, 1992 inclusive, you can claim a capital cost allowance for income tax purposes of up to 100 per cent of the cost.

Transitional credit: To ease the transition to the new system, a one-time start-up credit is available. You qualify for this credit if:

- you have to register for the GST (because your annual revenue from taxable (including zero-rated) goods and services is more than $30,000); and

- your revenue from taxable goods and services is less than $500,000 in your first fiscal quarter of 1991, or during any three-month period of continuous business operations beginning in 1990.

If you meet these conditions, you will receive a basic credit of $300. Depending on the amount of your quarterly revenue, you may qualify for a credit of up to $1,000. This credit will be based on your revenue from taxable sales in any fiscal quarter you choose starting in the period from January 1990 through March 1991.

If you belong to a group of associated companies, and it qualifies for the credit, the total of the group's transitional credits is limited to $1,000.

Note: You can receive one credit only.

If your filing period is monthly or quarterly, you will be able to claim the transitional credit on your GST return. If you file annually, you will have to apply separately for the transitional credit on a GST rebate form, available from any Revenue Canada Excise office.

The following chart shows how the credit is calculated.

Calculating the Transitional Credit

GST Taxable Revenue (for the quarter)	Transitional Credit
Up to $15,000	$300 (basic credit)
$15,000 to $50,000	2% of taxable revenue (for the quarter)
Over $50,000	$1,000 (maximum credit)

Federal Sales Tax (FST) Inventory Rebate: When the GST starts, you may have an inventory of goods for resale, lease or rental, the value of which includes the federal sales tax (FST). To avoid taxing these items again when they are sold after the GST is implemented, the Government has developed a method of rebating the FST. You must be registered for the GST as of January 1, 1991 to be eligible for this rebate.

Examples of items that include the FST:

- appliances such as refrigerators, stoves and vacuum cleaners
- dishwashing soap and laundry detergent
- linens such as table cloths, napkins, place mats and dishcloths
- soft drinks and alcoholic beverages

Note: Inventory includes items for lease or resale, but not capital property, such as display shelving.

FST rebate factors: To calculate your FST rebate, add up the value of your inventory (see "Taking inventory" below). Multiply the inventory value by an assigned percentage. A rebate of 8.1 per cent will apply to the value of most goods that include the FST.

To qualify: You can apply for the FST rebate if:

- the goods are new and unused;
- the goods are rebuilt or remanufactured and new and unused as such;
- FST was included in the price you paid for your inventory;
- you are registered for the GST as of January 1, 1991, and have the inventory on hand in Canada at that time;
- the goods are not described in another person's inventory;
- the items in your inventory are for sale, lease or rent in the ordinary course of your business;
- the goods are not capital property (other than class 12 or 14 property) in your books; and
- you submit your rebate claim in 1991.

How to apply: When you pre-register for the GST, indicate if you hold goods for sale, lease or rent, in your inventory. Shortly after registering, you will be mailed an inventory rebate application form you must use to claim the FST inventory rebate.

Taking inventory: If you claim an FST rebate, you must determine the value of your eligible inventory. Use one of the following methods:

- If you have a perpetual inventory system that is periodically verified by a physical count, use the value as of January 1, 1991.
- If you do not have a perpetual inventory system and your inventory is valued at $70,000 or less (excluding gasoline and diesel fuel), any inventory taken between April 1, 1990 and March 31, 1991, for income tax purposes may also be used for FST rebate purposes.

Applicants whose inventory value is greater than $70,000 and who do not have a perpetual inventory system will be allowed to physically take stock any time from November 1, 1990 to February 28, 1991, and to adjust the value of their inventory to include purchases and sales made from whenever the last inventory was taken until January 1, 1991. If you have to separate FST-included and FST-exempt items, this may be done by either:

- physically taking stock of all FST-exempt items on January 1, 1991; or

- identifying the ratio of tax-paid or tax-exempt goods to the total inventory at the time of the actual stocktaking, then applying this ratio to the inventory value. Allowance should be made for Christmas merchandise that may distort this ratio.

Questions and Answers

Q. Do I account for the GST on benefits I give to my employees?

A. For the most part, the treatment of employee benefits under the GST is linked to the *Income Tax Act*. Therefore, wages and most employee benefits will not be subject to the GST. However, the GST may apply to those benefits that are taxable under the *Income Tax Act*. Employers registered for the GST will be required to account for the GST on such benefits.

Free food provided to your employees will be taxed as an employee benefit under the GST. Generally, when you are required to report the provision of free food under the *Income Tax Act*, you will also account for the GST on these food products.

Some examples of employee benefits not subject to the GST:

- Canada and Quebec Pension Plan contributions
- Unemployment Insurance premiums
- pension payments and contributions
- dividend and interest payments
- deferred compensation and profit-sharing plans
- tuition fees for exempt educational courses
- vacation pay
- health and dental care premiums

Some examples of GST-taxable employee benefits:

- free food provided to your employees
- prizes
- gifts greater than $100

The amount of GST payable on taxable employee benefits must be calculated once a year, at the end of February. This is the deadline for calculating employee benefits for income tax purposes and issuing T4 slips. Make sure that the total value of the benefits you report on your employees' T4 slips includes any GST payable. The amount of GST due must be shown on your GST return for the period covering the last day of February, after the year in which the benefits were given.

Q. In my business I import food and spices. How does the GST affect these operations?

A. No GST will be charged at the border on spices imported into Canada as they are zero-rated. Nor will any GST be charged at the border on foods included in the definition of basic groceries, such as flour, sugar and canned goods. You will be able to recover any GST you paid on costs related to the importation of these goods. However, most other imports will be taxed under the GST on entry into Canada.

Q. If I take something from my restaurant to consume at home, does the GST apply?

A. If you take an item from your restaurant for personal consumption you become a consumer and are therefore liable for the tax. You would calculate the GST on the regular selling price of that item.

Q. Will there be an audit of my books?

A. There will be an audit program. You will have to maintain your books and records, even if you have elected to use the **Quick Method**, so they may be audited by a representative of Revenue Canada, Customs and Excise.

Audits will not only make sure you have paid all the GST owing, but will also help to ensure you have claimed the input tax credits and rebates your business is entitled to.

Additional Assistance

To help you understand the proposed GST and comply with it more easily, Revenue Canada, Customs and Excise has established the Enquiries Program to answer your questions.

We have also set up a special service called the Advisory Program. Under this program, Revenue Canada Excise staff can visit your place of business to discuss any specific problems you may have.

Simply call one of our local or toll-free telephone numbers listed on the back cover of this guide.

Appendix

Taxable Food and Beverages

Hot meals: Hot meals will be taxed at seven per cent under the GST. The tax will apply whether the meals are sold in a restaurant or a store.

Take-out foods, such as hamburgers, chicken, or pizza, will also be subject to the GST. Therefore, if you are registered for the GST, you will charge the seven per cent tax on the sales of these items.

Any beverage **heated** for consumption will be subject to the GST including a cup of coffee, tea or hot chocolate, whether sold for consumption on the premises or to take out. Any heated foods sold by eating establishments and other commercial food service outlets will also be subject to the GST. These include:

- hot soups
- bacon and eggs
- steaks
- hot pasta meals
- burritos, tortillas
- fish and chips
- hamburgers
- hot dogs
- french fried potatoes
- pizzas or portions thereof

Prepared salads: "Prepared salads" means any dish that contains chopped, shredded, diced, sliced or pureed fruit, meat, fish, eggs, vegetables, pasta or other food, usually with dressing, and which requires no further preparation. Salads will be taxed at seven per cent whether sold for consumption on the premises or to take out. Even if the salad dressing is provided in a separate package, the salad will be taxed at seven per cent.

Sandwiches and similar products: Sandwiches sold for immediate consumption, either on or off the premises, will be subject to the GST.

These include open-faced sandwiches, submarines and hero sandwiches, toasted sandwiches, pita bread sold with prepared food in its pocket or wrapped in a roll, and similar products.

Platters: Trays of appetizers and platters or arrangements of cheese, meat, fish, poultry, fruits, vegetables and other food sold in a form suitable for immediate consumption will be taxed at seven per cent.

Beverages: All beverages, including milk, non-alcoholic malt beverages, pop, coffee, tea, ice tea, hot chocolate, juice, alcoholic drinks **when dispensed (e.g., poured) at the place where they are sold, will be taxed at seven per cent**.

Beverages (excluding plain white milk) are taxed at seven per cent when sold in amounts of 500 ml or less.

As well, the following beverages are taxed **when sold in any size or quantity:**

- alcoholic
- non-alcoholic malt beverages
- carbonated
- fruit flavoured or fruit juice beverages with less than 25% fruit

Baked goods (sweetened):

- cakes
- muffins
- pies
- pastries
- cookies
- cinnamon buns
- doughnuts
- croissants (with sweetened filling/coating)

When the above items are sold in packages or single servings of six or more to take out, they are zero-rated.

A "single serving" of a sweetened baked good is a whole or complete product, weighing less than 230 grams (e.g., a cake, pie, pastry, tart, cookie, doughnut, muffin, brownie or croissant with a sweetened filling or coating), OR a portion or part of a product when sold as a single serving.

A "sweetened coating" includes any icing, sugar, or sweetened topping applied to the surface of a product before, during or after processing. A sweetened filling includes sweetening ingredients (other than unsweetened fruit) added as a filling, but **excludes** sweetened products added merely as a catalyst for leavening agents (known as yeast food). Unsweetened fruit used as a sweetener will not be taxed.

Ice cream and similar products:

- ice cream, ice milk, sherbet, frozen yoghurt or frozen pudding or any product that contains these products when packaged in single servings
- ice cream cakes

- ice milk/cream pies
- ice cream bars, drumsticks, etc.

A "single serving" for the above products is defined as less than 500 ml or 500 grams. A single serving includes cones of all kinds, sundaes, cups, dishes, bowls or similar containers of all sizes when dispensed at the place where they are sold excluding hand packed containers of 500 ml or more which are packed at the retail level for home consumption. A single serving also includes a container normally used for beverages when the serving in the beverage container has any of the above ingredients, as in the case of a float containing ice cream.

Candies:

- candy floss
- chewing gum
- chocolate
- fruits (candied)
- seeds (candied)
- nuts (candied)
- popcorn (candied)

The above products are taxed at seven per cent when sold in any size or quantity.

Ice water:

- flavoured
- coloured
- sweetened

The above products are taxed at seven per cent when sold in any size or quantity.

REVENUE CANADA EXCISE OFFICES

MAILING ADDRESSES	GENERAL ENQUIRIES	
	LOCAL	LONG DISTANCE
NEWFOUNDLAND AND LABRADOR P.O. Box 5500 St. John's, Newfoundland A1C 5W4	(709) 772-2851	1-800-563-4950
NOVA SCOTIA P.O. Box 1658 Halifax, Nova Scotia B3J 2Z8	(902) 426-1975	1-800-565-9111
PRINCE EDWARD ISLAND P.O. Box 1658 Halifax, Nova Scotia B3J 2Z8	(902) 566-7272	1-800-565-9111
NEW BRUNSWICK P.O. Box 1070 Moncton, New Brunswick E1C 8P2	(506) 851-3727	1-800-561-6656
QUEBEC P.O. Box 2117, Postal Terminal Québec, Quebec G1K 7M9	(418) 648-4376	1-800-363-5254
P.O. Box 6092, Station "A" Montréal, Quebec H3C 3H3	(514) 496-1494	1-800-361-8339
ONTARIO P.O. Box 8257 Ottawa, Ontario K1G 3H7	(613) 990-8584	1-800-465-6160
P.O. Box 100, Station "Q" Toronto, Ontario M4T 2L7	(416) 973-1000	1-800-461-1082
P.O. Box 5457 London, Ontario N6A 4L6	(519) 645-4041	1-800-265-0017
MANITOBA P.O. Box 1022 Winnipeg, Manitoba R3C 2W2	(204) 983-4525	1-800-665-8749
SASKATCHEWAN P.O. Box 557 Regina, Saskatchewan S4P 3A4	(306) 780-7279	1-800-667-8886
ALBERTA/NORTHWEST TERRITORIES P.O. Box 1717, Station "M" Calgary, Alberta T2P 4K4	(403) 292-6990	1-800-661-3498
P.O. Box 2296, Main Postal Station Edmonton, Alberta T5J 4N3	(403) 448-1309	1-800-661-3498
BRITISH COLUMBIA/YUKON P.O. Box 82110, North Burnaby Postal Station Burnaby, British Columbia V5C 5P2	(604) 666-4664	1-800-561-6990

HEARING DISABILITY
If you are deaf or have a hearing disability, and have access to a Telephone Device for the Deaf, telephone 1-800-465-5770 (in Canada only).

REGULAR HOURS OF TELEPHONE AND COUNTER SERVICE
Monday to Friday 8:00 a.m. to 5:00 p.m. (except holidays).

OTHER LANGUAGES
Some Excise offices offer help in languages other than English and French. Contact your Excise office for more details.

TOLL-FREE
(in Canada only)
No charge to caller. Dial as directed.

ELECTRONIC DATABASE
If you have any difficulty accessing this "keyword" searchable database by modem at 1-800-267-4500 (in Canada or U.S.), contact your Excise office.